



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
AUDIT OF THE DEPARTMENT OF EDUCATION**

**Made as Part of the Statewide Single Audit
of the Commonwealth of Kentucky**

For the Year Ended June 30, 1998

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AUDITOR OF PUBLIC ACCOUNTS
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INTRODUCTION

DEPARTMENT OF EDUCATION
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1998

Introduction

The Auditor of Public Accounts, acting as principal auditor in conjunction with various certified public accounting firms, annually performs a statewide single audit of the Commonwealth of Kentucky. This audit allows the Commonwealth to comply with federal audit requirements as set forth in the Single Audit Act of 1984, as amended by Public Law 104-156, and the regulations contained in the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Public Law 104-156, referred to as the Single Audit Act Amendments of 1996, is effective for fiscal years beginning after June 30, 1996.

Audit Approach

Our audit was conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Single Audit Act Amendments of 1996, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The scope of the statewide single audit for the year ended June 30, 1998, included:

- An audit of the general-purpose financial statements and required supplementary schedules in accordance with generally accepted government auditing standards;
- An audit of supplementary Schedule of Expenditures of Federal Awards in accordance with generally accepted government auditing standards;
- An audit of the internal control applicable to the Department of Education, to the extent necessary to consider and test the internal accounting and administrative control systems as required by generally accepted government auditing standards, the Single Audit Act Amendments of 1996, and the provisions of OMB Circular A-133; and
- A selection and testing of transactions and records relating to each major federal financial assistance program to obtain reasonable assurance that the Department of Education administers its major federal financial assistance programs in compliance with laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures or on the Commonwealth of Kentucky's general-purpose financial statements.

The Auditor of Public Account's office conducted the audit of the internal control focusing on the following objectives:

- Considering the internal control at the Department of Education in order to determine auditing procedures on the General-Purpose Financial Statements of the Commonwealth of Kentucky.
- Determining if the Department of Education has an internal control to provide reasonable assurance that it is managing the federal assistance programs in compliance with applicable laws and regulations.

**DEPARTMENT OF EDUCATION
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

List Of Abbreviations/Acronyms Used In This Report

CFDA	Catalog of Federal Domestic Assistance
HIV	Human Immunodeficiency Virus
KRS	Kentucky Revised Statutes
OMB	Office of Management and Budget
NA	Not applicable
US	United States
FY	Fiscal Year
KDE	Kentucky Department of Education

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**DEPARTMENT OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1998**

STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE		PASS THROUGH GRANTOR'S #	EXPENDITURES CASHNON-CASH	
<u>U.S. Department of Agriculture</u>				
Direct Programs:				
10.553	School Breakfast Program (Note 2) (Note 3)	NA	\$	25,559,908
10.555	National School Lunch Program (Note 2) (Note 3)	NA		81,529,555
10.556	Special Milk Program For Children (Note 2) (Note 3)	NA		86,928
10.558	Child And Adult Care Food Program (Note 2) (Note 3)	NA		14,309,440
10.559	Summer Food Services Program For Children (Note 2) (Note 3)	NA		2,969,417
10.560	State Administrative Expenses For Child Nutrition	NA		1,688,271
10.564	Nutrition Education And Training Program	NA		75,834
NA	Kentucky Demonstration (Note 3)	NA		3,742,317
<u>U.S. Department of Defense</u>				
Direct Program:				
NA	Teacher And Teacher's Aide Placement Assistance Program	NA		85,962
<u>U.S. National Science Foundation</u>				
Direct Program:				
47.076	Education And Human Resources (Note 3)	NA		1,052,003
<u>U.S. Environmental Protection Agency</u>				
Direct Program:				
66.951	Environmental Education Grants (Note 4)	NA		
<u>U.S. Department of Education</u>				
Direct Programs:				
84.004	Civil Rights Training, And Advisory Services (Note 3) (Note 4)	NA		
84.010	Title I Grants To Local Educational Agencies (Note 2) (Note 3)	NA		118,645,331
84.011	Migrant Education - Basic State Grant Program (Note 3)	NA		8,085,516

See accompanying notes to the Schedule of Expenditures of Federal Awards.

**DEPARTMENT OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

STATE AGENCY		PASS THROUGH GRANTOR'S #	EXPENDITURES	
FEDERAL GRANTOR CFDA #/ PROGRAM TITLE			CASH	NON-CASH
U.S. Department of Education (Continued)				
Direct Programs (Continued):				
84.013	Title I Program For Neglected And Delinquent Children (Note 3)	NA	\$ 207	
84.023	Special Education - Innovation and Development (Note 3)	NA	129,209	
84.025	Services For Children With Deaf-Blindness (Note 3)	NA	230,989	
84.027	Special Education - State Grants (Note 2) (Note 3)	NA	35,246,536	
84.029	Special Education - Personnel Development And Parent Training	NA	122,749	
84.086	Special Education - Program For Severely Disabled Children (Note 3)	NA	96,169	
84.151	Chapter 2 State Block Grants (Note 4)	NA		
84.158	Secondary Education And Transitional Services For Youth With Disabilities (Note 3)	NA	234,622	
84.162	Immigrant Education (Note 3)	NA	140,600	
84.164	Eisenhower Mathematics And Science Education - State Grants (Note 3) (Note 4)	NA		
84.173	Special Education - Preschool Grants (Note 2) (Note 3)	NA	8,987,880	
84.185	Byrd Honors Scholarships (Note 3)	NA	409,617	
84.186	Safe And Drug-Free Schools And Communities - State Grants (Note 3)	NA	5,492,165	
84.194	Bilingual Education Support Services (Note 3)	NA	95,993	
84.196	Education For Homeless Children And Youth (Note 3)	NA	355,966	
84.213	Even Start -State Educational Agencies (Note 3)	NA	1,563,290	
84.214	Even Start - Migrant Education (Note 3)	NA	127,250	
84.215	Fund For The Improvement Of Education (Note 3)	NA	91,315	
84.216	Capital Expenses (Note 3)	NA	166,089	
84.218	State School Improvement Grants (Note 3)	NA	194,720	
84.276	Goals 2000 - State And Local Education Systemic Improvement Grants (Note 3)	NA	5,870,587	
84.281	Eisenhower Professional Development State Grants (Note 3)	NA	3,322,601	
84.298	Innovative Education Program Strategies (Note 3)	NA	4,042,923	
84.318	Technology Literacy Challenge Fund Grant (Note 3)	NA	8,889,053	
NA	Appalachian Regional Assistance	NA	43,102	

**DEPARTMENT OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

STATE AGENCY FEDERAL GRANTOR CFDA #/ PROGRAM TITLE		PASS THROUGH GRANTOR'S #	EXPENDITURES CASHNON-CASH	
<u>U.S. Department of Education</u> (Continued)				
Passed Through From Workforce Development Cabinet:				
84.048	Vocational Education - Basic Grants to States (Note 3)	V048A 60017, V048A 70018	\$	6,610,590
84.126	Rehabilitation Services - Vocational Rehabilitation Grants To States	NA		13,534
84.243	Tech - Prep Education	V243a70088		15,000
84.278	General Administration And Program Support School To Work Grant	V278B60001		41,513
Passed Through From Cabinet For Health Services:				
84.181	Special Education - Grants for Infants and Families with Disabilities (Note 3)	NA		102,810
84.186	Safe and Drug-Free Schools and Communities - State Grants (Note 4)	MH-94-95-516		
Passed Through From University of Louisville:				
84.262	Minority Teacher Recruitment (Note 4)	P262A 30053, P262A 30063		
<u>U.S. Department of Health and Human Services</u>				
Direct Programs:				
93.600	Head Start	NA		153,217
93.938	Cooperative Agreement To Support Comprehensive School Health Programs To Prevent The Spread Of HIV And Other Important Health Problems (Note 3)	NA		140,068
Passed Through From Cabinet For Health Services:				
93.630	Developmental Disabilities Basic Support And Advocacy Grants (Note 3)	MH-95-96-5134		118,471
<u>U.S. Corporation For National And Community Services</u>				
Direct Program:				
94.004	Learn and Serve America - School and Community Based Programs (Note 3)	NA		261,357
DEPARTMENT OF EDUCATION			\$	341,140,674

**DEPARTMENT OF EDUCATION
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 1998**

Note 1 - Purpose of the Schedule and Significant Accounting Policies

Purpose of the Schedule - OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires a Schedule of Expenditures of Federal Awards showing each federal financial assistance program as identified in the Catalog of Federal Domestic Assistance.

Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133. As defined in that Circular, federal financial assistance "...means assistance that non-Federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities or direct appropriations, and other assistance, but does not include amounts received as reimbursement for services rendered to individuals...." It includes awards received directly from federal agencies, or indirectly through other units of state and local governments." Accordingly, the accompanying schedule includes the cash federal financial assistance programs; the Department of Education had no noncash federal financial assistance for the year ended June 30, 1998. Those programs that have not been assigned a catalog number, or for which the catalog number was not available, have been shown at the bottom of the relevant federal grantor subheading.

Reporting Entity - The Department of Education is an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010 and is included in the Commonwealth of Kentucky entity for financial reporting purposes. The accompanying Schedule of Expenditure of Federal Awards of the Department of Education presents only that portion of the federal financial assistance of the Commonwealth of Kentucky that is attributable to the transactions of the Department of Education.

Basis of Accounting - The accompanying Schedule of Expenditures of Federal Awards – Cash Assistance Programs are presented primarily on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed.

KRS 45.229 provides that the Finance and Administration Cabinet may, "... for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose." However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

The Commonwealth's general-purpose financial statements are presented on the accrual/modified accrual basis of accounting. Therefore, the Schedule of Expenditures of Federal Awards – Cash Assistance Programs may not be directly traceable to the general-purpose financial statements in all cases.

**DEPARTMENT OF EDUCATION
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 1998
(CONTINUED)**

Note 1 - Purpose of the Schedule and Significant Accounting Policies (Continued)

Inter-agency Activity - Certain transactions relating to federal financial assistance may appear in the records of more than one state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the Commonwealth's Schedule of Expenditures of Federal Awards:

- (a) Federal moneys may be received by one state agency (primary state agency - recipient) and passed through to another state agency (secondary state agency - subrecipient) where the moneys are expended. Except for pass throughs to state universities as discussed below, this inter-agency transfer activity is reported in the Department of Education's Schedule of Expenditures of Federal Awards:
 - Under the primary state agency, the federal program is reported as a direct program. However, the transfer of money to the secondary state agency is not included in the primary state agency's expenditures.
 - Under the secondary state agency, the federal program is reported as a pass-through program. The expenditure of the transferred moneys is reported in the secondary agency's expenditures.

Because the Department of Education's schedules exclude federal financial assistance related to state universities, when a state agency passes federal money to a state university, this is reported in the schedules as an expenditure of that state agency.

- (b) Federal moneys received by the Department of Education and used to purchase goods or services from another state agency are reported in the Department of Education's schedules only as an expenditure.

Note 2 – Type A Programs

Under the provision of the OMB Circular A-133, federal programs must be defined as Type A or Type B programs. For the Statewide Single Audit of the Commonwealth of Kentucky, a Type A program must have expended over \$12 million. All other programs are Type B programs.

Clusters are a group of closely related programs sharing common compliance requirements. A cluster of programs must be considered as one program for determining Type A programs.

**DEPARTMENT OF EDUCATION
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 1998
(CONTINUED)**

The Department of Education had eight cash programs that met the Type A major program definition for the year ended June 30, 1998. The Department of Education identified two clusters, which included more than one federal program, among the Type A programs. These Type A programs were:

CFDA #	Program Title	Expenditures
10.553	School Breakfast Program	\$ 25,559,908 a
10.555	National School Lunch Program	81,529,555 a
10.556	Special Milk Program for Children	86,928 a
10.558	Child and Adult Care Food Program	14,309,440
10.559	Summer Food Services Program for Children	2,969,417 a
84.010	Title I Grants to Local Educational Agencies	118,645,331
84.027	Special Education – State Grants	35,246,536 b
84.173	Special Education – Preschool Grants	8,987,880 b
Total Type A Programs		\$287,334,995

Identified clusters include:

- a** – Nutrition Cluster
- b** – Special Education Cluster

Note 3 – Subrecipient Activity

A subrecipient is a non-federal entity that expends federal awards received from a pass-through entity to carry out a federal program. The following list summarizes the amount of federal funds sent to subrecipients:

CFDA #	Federal Program Name	Amount Sent
10.553	School Breakfast Program	25,513,095
10.555	National School Lunch Program	81,423,492
10.556	Special Milk Program for Children	86,928
10.558	Child and Adult Care Food Program	14,233,209
10.559	Summer Food Services Program for Children	2,890,057
47.076	Education and Human Resources	931,862
84.004	Civil Rights, Training, and Advisory Services	(1,259)
84.010	Title I Grants to Local Educational Agencies	116,746,136
84.011	Migrant Education - Basic State Grant Program	7,882,483
84.013	Title I Program for Neglected and Delinquent Children	3,606

**DEPARTMENT OF EDUCATION
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 1998
(CONTINUED)**

Note 3 – Subrecipient Activity (Continued)

CFDA #	Federal Program Name	Amount Sent
84.023	Special Education - Innovation and Development	\$ 129,210
84.025	Services for Children with Deaf - Blindness	230,989
84.027	Special Education - State Grants	32,692,952
84.048	Vocational Education - Basic Grants to States	6,271,386
84.086	Special Education - Program for Severely Disabled Children	96,169
84.158	Secondary Education and Transitional Services for Youth with Disabilities	231,642
84.162	Immigrant Education	140,600
84.164	Eisenhower Mathematics and Science Education - State Grants	(246)
84.173	Special Education - Preschool Grants	8,451,326
84.181	Special Education - Grants for Infants and Families with Disabilities	48,503
84.185	Byrd Honors Scholarships	133,195
84.186	Safe and Drug-Free School and Communities - State Grants	5,289,740
84.194	Bilingual Education Support Services	39,681
84.196	Education for Homeless Children and Youth	323,419
84.213	Even Start - State Educational Agencies	1,517,480
84.214	Even Start - Migrant Education	117,630
84.215	Fund for the Improvement of Education	59,252
84.216	Capital Expenses	137,396
84.218	State School Improvement Grants	20,788
84.276	Goals 2000 - State and Local Education Systemic Improvement Grants	5,322,971
84.281	Eisenhower Professional Development State Grants	3,104,321
84.298	Innovative Education Program Strategies	3,631,169
84.318	Technology Literacy Challenge Fund Grant	6,612,141
93.630	Developmental Disabilities Basic Support and Advocacy Grants	118,471
93.938	Cooperative Agreement to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	63,050
94.004	Learn and Serve America - School and Community Based Programs	234,112
NA	Kentucky IA Demonstration	3,785,419
Total Amount Sent to Subrecipients		\$328,512,375

**DEPARTMENT OF EDUCATION
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 1998
(CONTINUED)**

Note 4 – Zero Expenditure Programs

These programs had no expenditures during the year ended June 30, 1998. They included programs with no activity during the year, such as old programs not officially closed out or new programs issued late in the fiscal year. They also included programs with activity other than expenditures.

REPORT ON COMPLIANCE AND INTERNAL CONTROL



Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
Marlene M. Helm, Secretary
Education, Arts and Humanities
Kevin Noland, Interim Commissioner
Department of Education

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of General-Purpose Financial Statements Performed In Accordance With Government Auditing Standards

As part of the audit of the general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 1998, we have audited expenditures, accounts payable, receipts of the Department of Education, an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010, and have issued our report thereon dated January 30, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Commonwealth of Kentucky's financial statements are free of material misstatement, we performed tests of the Department of Education's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department of Education's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider being material weaknesses.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Marlene M. Helm, Secretary
Education, Arts and Humanities
Kevin Noland, Interim Commissioner
Department of Education
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of General-Purpose
Financial Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and applicable federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork complete –
December 4, 1998



Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
Marlene M. Helm, Secretary
Education, Arts and Humanities
Kevin Noland, Interim Commissioner
Department of Education

Report On Compliance With Requirements Applicable To Each
Major Program And Internal Control Over Compliance In Accordance
With OMB Circular A-133 And On The Schedule Of Expenditures Of Federal Awards

Compliance

As part of the Statewide Single Audit of the Commonwealth of Kentucky, we have audited the compliance of the Department of Education, an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1998. The Department of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Department of Education's management. Our responsibility is to express an opinion on the Department of Education's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department of Education's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Department of Education's compliance with those requirements.

In our opinion, the Department of Education complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1998.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Marlene M. Helm, Secretary
Education, Arts and Humanities
Kevin Noland, Interim Commissioner
Department of Education
Report On Compliance With Requirements Applicable To Each
Major Program And Internal Control Over Compliance In Accordance
With OMB Circular A-133 And On The Schedule Of Expenditures Of Federal Awards
(Continued)

Internal Control Over Compliance

The management of the Department of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Department of Education's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the general-purpose financial statements of Commonwealth of Kentucky as of and for the year ended June 30, 1998, and have issued our report thereon dated January 30, 1999. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards of the Department of Education is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements.

As described in Note 1, the Schedule of Expenditures of Federal Awards of the Department of Education is intended to present only that portion of the Expenditures of Federal Awards of the Commonwealth of Kentucky that is attributable to the transactions of the Department of Education.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Marlene M. Helm, Secretary
Education, Arts and Humanities
Kevin Noland, Interim Commissioner
Department of Education
Report On Compliance With Requirements Applicable To Each
Major Program And Internal Control Over Compliance In Accordance
With OMB Circular A-133 And On The Schedule Of Expenditures Of Federal Awards
(Continued)

Schedule of Expenditures of Federal Awards (Continued)

The general-purpose financial statements of the Commonwealth of Kentucky are prepared on an accrual/modified accrual basis of accounting. However, as described in Note 1, the Schedule of Expenditures of Federal Awards of the Department of Education is prepared on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. Accordingly, the Schedule of Expenditures of Federal Awards is not intended to present the Expenditures of Federal Awards in conformity with generally accepted accounting principles.

In our opinion, except for the effect of the application of a different basis of accounting as explained above, the Schedule of Federal Awards of the Department of Education is fairly stated, in all material respects, in relation to the Commonwealth of Kentucky's general-purpose financial statements taken as a whole.

This report is intended solely for the information and use of management and applicable federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork complete –
July 9, 1999

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS

Financial Statement Accounts And Schedule Of Expenditures Of Federal Awards

Financial Statement Accounts: We issued a qualified opinion on the Commonwealth of Kentucky’s general-purpose financial statements as of and for the fiscal year ended June 30, 1998, because we were unable to verify evidence regarding year 2000 disclosures. The Department of Education was included in our audit procedures of the general-purpose financial statements.

Schedule of Expenditures of Federal Awards: We issued a qualified opinion on the Department of Education’s Schedule of Expenditures of Federal Awards because the schedule was presented on a basis of accounting that was not in conformance with generally accepted accounting principles as described in Note 1 of the schedule. The opinion was issued in relation to the Commonwealth of Kentucky’s general-purpose financial statements taken as a whole.

Internal Control Over Financial Reporting: Our consideration of the Department of Education’s internal control over financial reporting disclosed no reportable conditions.

Compliance: In relation to the audit of the Department of Education’s accounts that we audited, and the Schedule of Expenditures of Federal Awards, the results of our tests disclosed no instances of noncompliance that are required to be reported under generally accepted government auditing standards.

Federal Awards

Internal Control Over Compliance: Our consideration of the Department of Education’s internal control over compliance disclosed no reportable conditions.

Compliance: We issued an unqualified opinion on the Department of Education’s compliance with the requirements applicable to each of its major federal programs.

Identification Of Major Programs Audited

OMB Circular A-133 defines a major program as “a Federal program determined by the auditor to be a major program in accordance with section __.520 or a program identified as a major program by the Federal awarding agency or pass-through entity in accordance with section __.215(c).” Section __.520 states, “The auditor shall use a risk-based approach to determine which Federal programs are major programs.”

**DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS (Continued)

Identification Of Major Programs Audited(Continued)

The following is a list of major programs audited:

<u>CFDA #</u>	<u>FEDERAL PROGRAM OR CLUSTER</u>	<u>AMOUNT</u>
<u>Type A Program:</u>		
Child Nutrition Cluster		
10.553	School Breakfast Program	\$ 25,559,908
10.555	National School Lunch Program	81,529,555
10.556	Special Milk Program for Children	86,928
10.559	Summer Food Services Program for Children	<u>2,969,417</u>
	Total Child Nutrition Cluster	<u>\$110,145,808</u>
Special Education Cluster		
84.027	Special Education – State Grants	\$35,246,536
84.173	Special Education – Preschool Grants	<u>8,987,880</u>
	Total Special Education Cluster	<u>\$44,234,416</u>
10.558	Child and Adult Care Food Program	\$ 14,309,440
84.010	Title I Grants to Local Educational Agencies	<u>118,645,331</u>
	Total Type A Program Audited	<u>\$287,334,995</u>

Dollar Threshold Used to Distinguish Between Type A and Type B Programs

The dollar threshold used to distinguish between Type A and Type B Programs was \$12 million.

Auditee Qualify as Low-Risk Auditee?

The Commonwealth of Kentucky did not qualify as a low-risk auditee.

**DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

SECTION 2 – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

There were no financial statement audit findings.

**DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1998
(CONTINUED)**

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award audit findings.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**DEPARTMENT OF EDUCATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 1998**

Other Matters

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<i>(1) Audit findings that have been fully corrected:</i>					
FY 97	97-KDE-1	The Department of Education Should Improve Procedures for Processing Inter-account Bills and Invoices	NA	0	Resolved.
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 97	97-KDE-2	The Kentucky Department of Education Should Sign All Pay In Vouchers	NA	0	This comment was partially resolved for the year ended June 30, 1998, in that the deposit date was stamped on the agency copy of the Pay-In Vouchers. During follow-up, we noted a block of 20 Pay-In Vouchers that were not properly signed. This portion of the original comment is still unresolved.
<i>(3) Corrective action taken is significantly different from corrective action previously reported:</i>					
NA					
<i>(4) Audit finding is no longer valid:</i>					
NA					